AMERICAS CARMART INC
Form 10-Q
December 08, 2009

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended October 31, 2009

Or

[ ]TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from ________ to ________

Commission file number: 0-14939

AMERICA’S CAR-MART, INC.
(Exact name of registrant as specified in its charter)

Texas	63-0851141
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

802 Southeast Plaza Ave., Suite 200, Bentonville, Arkansas 72712
(Address of principal executive offices, including zip code)

(479) 464-9944
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ý No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes o No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer o	Accelerated filer ý
Non-accelerated filer o	Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No ý

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Title of Each Class	Outstanding at December 8, 2009
Common stock, par value $.01 per share	11,732,153

Part I. FINANCIAL INFORMATION

Item 1. Financial Statements America's Car-Mart, Inc.
Condensed Consolidated Balance Sheets
(Dollars in thousands except per share amounts)

	October 31, 2009 (unaudited)	April 30, 2009
Assets:		
Cash and cash equivalents	$ 229	$ 168
Accrued interest on finance receivables	854	778
Finance receivables, net	199,664	182,041
Inventory	17,746	15,476
Prepaid expenses and other assets	949	1,460
Goodwill	355	355
Property and equipment, net	20,681	19,346
	$ 240,478	$ 219,624
Liabilities, mezzanine equity and equity:		
Liabilities:		
Accounts payable	$ 4,126	$ 3,928
Deferred payment protection plan revenue	8,014	7,353
Accrued liabilities	11,386	12,342
Income taxes payable, net	666	308
Deferred tax liabilities, net	10,331	8,377
Revolving credit facilities and notes payable	34,201	29,839
Total liabilities	68,724	62,147
Commitments and contingencies		
Mezzanine equity:		
Mandatorily redeemable preferred stock	400	400
Equity:		
Preferred stock, par value $.01 per share, 1,000,000 shares authorized; none issued or outstanding	-	-
Common stock, par value $.01 per share, 50,000,000 shares authorized; 12,231,437 issued (12,228,465 at April 30, 2009)	122	122
Additional paid-in capital	41,270	40,313
Retained earnings	136,533	123,213
Less: Treasury stock, at cost, 499,284 shares	(6,671)	(6,671)
Total stockholders' equity	171,254	156,977
Non-controlling interest	100	100
Total equity	171,354	157,077
	$ 240,478	$ 219,624

The accompanying notes are an integral part of these consolidated financial statements.

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Condensed Consolidated Statements of Operations (Unaudited)
(Dollars in thousands except per share amounts)

America's Car-Mart, Inc.

	Three Months Ended October 31, 2009	Three Months Ended October 31, 2008	Six Months Ended October 31, 2009	Six Months Ended October 31, 2008
Revenues:				
Sales	$75,242	$65,413	$152,254	$134,639
Interest income	7,319	6,570	14,062	13,005
	82,561	71,983	166,316	147,644
Costs and expenses:				
Cost of sales, excluding depreciation shown below	42,318	37,437	85,400	76,463
Selling, general and administrative	13,964	12,500	27,887	25,309
Provision for credit losses	15,152	14,421	30,203	28,912
Interest expense	776	1,110	1,023	1,802
Depreciation and amortization	412	338	804	657
	72,622	65,806	145,317	133,143
Income before taxes	9,939	6,177	20,999	14,501
Provision for income taxes	3,627	2,296	7,659	5,329
Net income	$6,312	$3,881	$13,340	$9,172
Less: Dividends on subsidiary preferred stock	(10)	(10)	(20)	(20)
Net income attributable to common stockholders	$6,302	$3,871	$13,320	$9,152
Earnings per share:				
Basic	$.54	$.33	$1.14	$.78
Diluted	$.53	$.33	$1.13	$.78
Weighted average number of shares outstanding:				
Basic	11,732,151	11,760,421	11,731,100	11,733,571
Diluted	11,862,679	11,825,806	11,827,588	11,807,141

The accompanying notes are an integral part of these consolidated financial statements.

ConsolidatedStatements of Cash Flows America's Car-Mart, Inc.
(Unaudited)
(In thousands)

	Six Months Ended October 31, 2009	2008
Operating activities:		
Net income	$13,340	$9,172
Adjustments to reconcile net income from operations to net cash provided by (used in) operating activities:		
Provision for credit losses	30,203	28,912
Losses on claims for payment protection plan	2,161	1,804
Depreciation and amortization	804	657
(Gain) loss on sale of property and equipment	113	(10)
Stock based compensation	902	1,156
Unrealized (gain) loss for change in fair value of interest rate swap	(226)	494
Deferred income taxes	1,954	3,636
Changes in operating assets and liabilities:		
Finance receivable originations	(140,749)	(125,447)
Finance receivable collections	80,054	71,430
Accrued interest on finance receivables	(76)	(74)
Inventory	8,469	8,098
Prepaid expenses and other assets	511	(317)
Accounts payable and accrued liabilities	1,123	71
Deferred payment protection plan revenue	661	2,215
Income taxes payable	358	3,605
Excess tax benefit from stock-based compensation	-	(453)
Net cash provided by (used in) operating activities	(398)	4,949
Investing activities:		
Purchase of property and equipment	(2,373)	(1,460)
Proceeds from sale of property and equipment	92	47
Net cash used in investing activities	(2,281)	(1,413)
Financing activities:		
Exercise of stock options and warrants	-	301
Excess tax benefit from stock-based compensation	-	453
Issuance of common stock	54	88
Dividend payments	(20)	(20)
Change in cash overdrafts	(1,656)	(1,783)
Proceeds from notes payable	-	15
Principal payments on notes payable	(473)	(409)
Proceeds from revolving credit facilities	48,830	43,630
Payments on revolving credit facilities	(43,995)	(45,753)
Net cash provided by (used in) financing activities	2,740	(3,478)
Increase in cash and cash equivalents	61	58

Cash and cash equivalents at:	Beginning of period	168	153
End of period		$229	$211

The accompanying notes are an integral part of these consolidated financial statements

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A – Organization and Business

America's Car-Mart, Inc., a Texas corporation (the "Company"), is the largest publicly held automotive retailer in the United States focused exclusively on the "Buy Here/Pay Here" segment of the used car market. References to the Company typically include the Company's consolidated subsidiaries. The Company's operations are principally conducted through its two operating subsidiaries, America's Car-Mart, Inc., an Arkansas corporation ("Car-Mart of Arkansas"), and Colonial Auto Finance, Inc., an Arkansas corporation ("Colonial"). Collectively, Car-Mart of Arkansas and Colonial are referred to herein as "Car-Mart." The Company primarily sells older model used vehicles and provides financing for substantially all of its customers. Many of the Company's customers have limited financial resources and would not qualify for conventional financing as a result of limited credit histories or past credit problems. As of October 31, 2009, the Company operated 96 stores located primarily in small cities throughout the South-Central United States.

B – Summary of Significant Accounting Policies

General

The accompanying condensed consolidated balance sheet as of April 30, 2009, which has been derived from audited financial statements and the unaudited interim condensed consolidated financial statements as of October 31, 2009 have been prepared in accordance with generally accepted accounting principles for interim financial information and in accordance with the instructions to Form 10-Q in Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three and six months ended October 31, 2009 are not necessarily indicative of the results that may be expected for the year ending April 30, 2010. For further information, refer to the consolidated financial statements and footnotes thereto included in the Company's annual report on Form 10-K for the year ended April 30, 2009.

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its subsidiaries. All intercompany accounts and transactions have been eliminated.

Segment Information

Each dealership is an operating segment with its results regularly reviewed by the Company's chief operating decision maker in an effort to make decisions about resources to be allocated to the segment and to assess its performance. Individual lots meet the aggregation criteria under the Accounting Standards Codification ("ASC") Topic 280, "Segment Reporting" ("ASC 280"). The Company operates in the Buy Here/Pay Here segment of the used car market, also referred to as the Integrated Auto Sales and Finance Industry. In this industry, the nature of the sale and the financing of the transaction, financing processes, the type of customer and the methods used to distribute the Company's products and services, including the actual servicing of the loans as well as the regulatory environment in which the Company operates, all have similar characteristics. Each of our individual lots is similar in nature and only engages in the selling and financing of used vehicles. All individual lots have similar operating characteristics. As such, individual lots have been aggregated into one reportable segment.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the period. Actual results could differ from those estimates.

Concentration of Risk

The Company provides financing in connection with the sale of substantially all of its vehicles. These sales are made primarily to customers residing in Arkansas, Alabama, Oklahoma, Texas, Kentucky and Missouri, with approximately 49% of revenues from customers residing in Arkansas. The Company maintains a security interest in the vehicles sold. Periodically, the Company maintains cash in financial institutions in excess of the amounts insured by the federal government. Car-Mart’s revolving credit facilities mature in April 2010. The Company expects that these credit facilities will be renewed or refinanced on or before the scheduled maturity date.

Restrictions on Subsidiary Distributions/Dividends

Car-Mart of Arkansas' revolving credit facilities limit distributions from Car-Mart of Arkansas to the Company beyond (i) the repayment of an intercompany loan ($10.0 million at October 31, 2009), and (ii) dividends equal to 75% of Car-Mart of Arkansas' net income. At October 31, 2009, the Company's assets (excluding its $158 million equity investment in Car-Mart) consisted of $1,900 in cash, $3.8 million in other net assets and a $10.0 million receivable from Car-Mart of Arkansas. Thus, the Company is limited in the amount of dividends or other distributions it can make to its shareholders without the consent of Car-Mart of Arkansas' lender.

Cash Equivalents

The Company considers all highly liquid debt instruments purchased with maturities of three months or less to be cash equivalents.

Finance Receivables, Repossessions and Charge-offs and Allowance for Credit Losses

The Company originates installment sale contracts from the sale of used vehicles at its dealerships. These installment sale contracts carry interest rates ranging from 5.5% to 19% using the simple effective interest method in compliance with ASC Subtopic 310-20, "Receivables – Nonrefundable Fees and Other Costs" ("ASC 310"), including any deferred fees. Loan origination costs are not significant. The installment sale contracts are not pre-computed loans whereby borrowers are obligated to pay back principal plus the full amount of interest that will accrue over the entire term of the loan. Finance receivables are collateralized by vehicles sold and consist of contractually scheduled payments from installment contracts net of unearned finance charges and an allowance for credit losses. Unearned finance charges represent the balance of interest receivable to be earned over the entire term of the related installment contract, less the earned amount ($854,000 at October 31, 2009), and as such, has been reflected as a reduction to the gross contract amount in arriving at the principal balance in finance receivables. An account is considered delinquent when a contractually scheduled payment has not been received by the scheduled payment date. While the Company does not formally place loans on nonaccrual status, the immaterial amount of interest that may accrue after an account becomes delinquent up until the point of resolution via repossession or write-off, is reserved for against the accrued interest on the Consolidated Balance Sheets. Delinquent loans are addressed and either made current by the customer, which is the case in most situations, or the vehicle is repossessed or written off, if the collateral cannot be recovered quickly. Customer payments are set to match their pay-day with over 80% of payments due on either a weekly or bi-weekly basis. The frequency of the payment due dates combined with the declining value of collateral lead to prompt resolutions on problem accounts. Accounts are delinquent when the customer is one day or more behind on their contractual payments. At October 31, 2009 and 2008, respectively, 3.4% and 3.8% of the Company's finance receivable balances were 30 days or more past due.

The Company works very hard to keep its delinquency percentages low and not to repossess vehicles. Accounts one day late are sent a notice in the mail. Accounts three days late are contacted by telephone. Notes from each telephone contact are electronically maintained in the Company's computer system. If a customer becomes severely delinquent in his or her payments, and management determines that timely collection of future payments is not probable, the Company will take steps to repossess the vehicle. The Company attempts to resolve payment delinquencies amicably prior to repossessing a vehicle. Periodically, the Company enters into contract modifications with its customers to extend the payment terms. The Company only enters into a contract modification or extension if it believes such action will increase the amount of monies the Company will ultimately realize on the customer's account. At the time of modification, the Company expects to collect amounts due including accrued interest at the contractual interest rate for the period of delay. Other than the extension of additional time, concessions are not granted to customers at the time of modifications. Modifications are minor and are made for pay-day changes, minor vehicle repairs and other reasons. The majority of vehicles that are repossessed are returned or surrendered by the customer on a voluntary basis. Other repossessions are performed by Company personnel or third party repossession agents. Depending on the condition of a repossessed vehicle, it is either resold on a retail basis through a Company store, or sold for cash on a wholesale basis primarily through physical and/or on-line auctions.

The Company takes steps to repossess a vehicle when the customer becomes delinquent in his or her payments, and management determines that timely collection of future payments is not probable. Accounts are charged-off after the expiration of a statutory notice period for repossessed accounts, or when management determines that the timely collection of future payments is not probable for accounts where the Company has been unable to repossess the vehicle. For accounts with respect to which the vehicle was repossessed, the fair value of the repossessed vehicle is charged as a reduction of the gross finance receivable balance charged-off. On average, accounts are approximately 56 days past due at the time of charge-off. For previously charged-off accounts that are subsequently recovered, the amount of such recovery is credited to the allowance for credit losses.

The Company maintains an allowance for credit losses on an aggregate basis, as opposed to a loan-by-loan basis, at a level it considers sufficient to cover estimated losses in the collection of its finance receivables. In accordance with ASC Topic 450, "Contingencies" ("ASC 450"), the Company accrues an estimated loss as it is probable that the entire amount will not be collected and the amount of the loss can be reasonably estimated in the aggregate. The allowance for credit losses is based primarily upon historical credit loss experience, with consideration given to recent credit loss trends and changes in loan characteristics (i.e., average amount financed and term), delinquency levels, collateral values, economic conditions and underwriting and collection practices. The allowance for credit losses is periodically reviewed by management with any changes reflected in current operations. Although it is at least reasonably possible that events or circumstances could occur in the future that are not presently foreseen which could cause actual credit losses to be materially different from the recorded allowance for credit losses, the Company believes that it has given appropriate consideration to all relevant factors and has made reasonable assumptions in determining the allowance for credit losses.

The Company offers retail customers in most states the option of purchasing a payment protection plan product as an add-on to the installment sale contract. This product contractually obligates the Company to cancel the remaining principal outstanding for any loan where the retail customer has totaled the vehicle, as defined, or the vehicle has been stolen. The Company periodically evaluates anticipated losses to ensure that if anticipated losses exceed deferred payment protection plan revenues, an additional liability is recorded for such difference. No such liability was required at October 31, 2009.

Inventory

Inventory consists of used vehicles and is valued at the lower of cost or market on a specific identification basis. Vehicle reconditioning costs are capitalized as a component of inventory. Repossessed vehicles are recorded at fair value, which approximates wholesale value. The cost of used vehicles sold is determined using the specific identification method.

Goodwill

Goodwill reflects the excess of purchase price over the fair value of specifically identified net assets purchased. In accordance with ASC Subtopic 350-20,"Intangibles – Goodwill" ("ASC 350"), goodwill and intangible assets deemed to have indefinite lives are not amortized but are subject to annual impairment tests. The impairment tests are based on the comparison of the fair value of the reporting unit to the carrying value of such unit. If the fair value of the reporting unit falls below its carrying value, goodwill is deemed to be impaired and a write-down of goodwill would be recognized. There was no impairment of goodwill during fiscal 2009, and to date, there has been none in fiscal 2010.

Property and Equipment

Property and equipment are stated at cost. Expenditures for additions, renewals and improvements are capitalized. Costs of repairs and maintenance are expensed as incurred. Leasehold improvements are amortized over the shorter of the estimated life of the improvement or the lease term. The lease term includes the primary lease term plus any extensions that are reasonably assured. Depreciation is computed principally using the straight-line method generally over the following estimated useful lives:

Furniture, fixtures and equipment	3 to 7 years

Leasehold improvements	5 to 15 years
Buildings and improvements	18 to 39 years

Property and equipment are reviewed for impairment whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying values of the impaired assets exceed the fair value of such assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell.

Cash Overdraft

The Company's primary disbursement bank account is set up to operate with a fixed $50,000 cash balance. As checks are presented for payment, monies are automatically drawn against cash collections for the day and, if necessary, are drawn against one of its revolving credit facilities. The cash overdraft balance principally represents outstanding checks, net of any deposits in transit that as of the balance sheet date had not yet been presented for payment.

Deferred Sales Tax

Deferred sales tax represents a sales tax liability of the Company for vehicles sold on an installment basis in the State of Texas. Under Texas law, for vehicles sold on an installment basis, the related sales tax is due as the payments are collected from the customer, rather than at the time of sale.

Income Taxes

Income taxes are accounted for under the liability method. Under this method, deferred tax assets and liabilities are determined based on differences between financial reporting and tax bases of assets and liabilities, and are measured using the enacted tax rates expected to apply in the years in which these temporary differences are expected to be recovered or settled.

Occasionally, the Company is audited by taxing authorities. These audits could result in proposed assessments of additional taxes. The Company believes that its tax positions comply in all material respects with applicable tax law. However, tax law is subject to interpretation, and interpretations by taxing authorities could be different from those of the Company, which could result in the imposition of additional taxes. The Internal Revenue Service is currently auditing the 2008 and 2009 income tax returns for Car-Mart of Arkansas.

The Company applies the provisions of ASC Topic 740, “Income Taxes” (“ASC 740”). As required by ASC 740, the Company recognizes the financial statement benefit of a tax position only after determining that the relevant tax authority would more likely than not sustain the position following an audit. For tax positions meeting the more-likely-than-not threshold, the amount recognized in the financial statements is the largest benefit that has a greater than 50 percent likelihood of being realized upon ultimate settlement with the relevant tax authority. The Company applies ASC 740 to all tax positions for which the statute of limitations remains open.

The Company is subject to income taxes in the U.S. federal jurisdiction and various state jurisdictions. Tax regulations within each jurisdiction are subject to the interpretation of the related tax laws and regulations and require significant judgment to apply. With few exceptions, the Company is no longer subject to U.S. federal, state and local income tax examinations by tax authorities for the years before fiscal 2006.

The Company’s policy is to recognize accrued interest related to unrecognized tax benefits in interest expense and penalties in operating expenses. The Company had no accrued penalties and/or interest as of October 31, 2009.

Revenue Recognition

Revenues are generated principally from the sale of used vehicles, which in most cases includes a service contract and a payment protection plan product, interest income and late fees earned on finance receivables. Revenues are net of taxes collected from customers and remitted to government agencies. Cost of vehicle sales include costs incurred by the Company to prepare the vehicle for sale including license and title costs, gasoline, transport services and repairs.

Revenues from the sale of used vehicles are recognized when the sales contract is signed, the customer has taken possession of the vehicle and, if applicable, financing has been approved. Revenues from the sale of service contracts are recognized ratably over the five-month service contract period. Service contract revenues are included in sales and the related expenses are included in cost of sales. Payment protection plan revenues are initially deferred and then recognized to income using the “Rule of 78’s” interest method over the life of the loan so that revenues are recognized in proportion to the amount of cancellation protection provided. Payment protection plan revenues are included in sales and related losses are included in cost of sales. Interest income is recognized on all active finance receivable accounts using the simple effective interest method. Active accounts include all accounts except those that have been paid-off or charged-off.

Sales consist of the following:

(In thousands)	Three Months Ended October 31, 2009	2008	Six Months Ended October 31, 2009	2008
Sales – used autos	$66,706	$57,440	$135,752	$118,953
Wholesales – third party	3,367	3,393	6,405	6,794
Service contract sales	2,903	2,598	5,623	5,180
Payment protection plan revenue	2,266	1,982	4,474	3,712
Total	$75,242	$65,413	$152,254	$134,639

Late fee revenues were approximately $872,000 and $691,000 for the six months ended October 31, 2009 and 2008, respectively. Late fees are recognized when collected and are reflected in interest income. Finance receivables more than 90 days past due were approximately $389,000 and $632,000 at October 31, 2009 and 2008, respectively.

Earnings per Share

Basic earnings per share are computed by dividing net income by the average number of common shares outstanding during the period. Diluted earnings per share are computed by dividing net income attributable to common stockholders by the average number of common shares outstanding during the period plus common stock equivalents. The calculation of diluted earnings per share takes into consideration the potentially dilutive effect of common stock equivalents, such as outstanding stock options and warrants, which if exercised or converted into common stock would then share in the earnings of the Company. In computing diluted earnings per share, the Company utilizes the treasury stock method and anti-dilutive securities are excluded.

Stock-based compensation

The Company applies the provisions of ASC Topic 718, "Compensation – Stock Compensation" ("ASC 718"). ASC 718 requires the Company to recognize expense as services are received related to the fair value of stock-based compensation awards, including employee stock options.

The Company recorded compensation cost for stock-based employee awards of $902,000 ($573,000 after tax effects) during the six months ended October 31, 2009. The pretax amounts include $20,000 for restricted shares issued on May 1, 2006, $51,000 for restricted shares issued on December 18, 2007, $13,000 for restricted shares issued on August 14, 2009, $146,000 for stock options granted in July 2009, $635,000 for options granted on October 16, 2007, $31,000 for options granted October 1, 2009, and $6,000 related to stock issued under the 2006 Employee Stock Purchase Plan. The Company recorded compensation cost for stock-based employee awards of $1,156,000 ($731,000 after tax effects) during the six months ended October 31, 2008. The pretax amounts include $179,000 for restricted shares issued on May 1, 2006, $134,000 for restricted shares issued on December 18, 2007, $201,000 for stock options granted during the six months ended October 31, 2008, $635,000 for options granted on October 16, 2007, and $7,000 related to stock issued under the 2006 Employee Stock Purchase Plan. Tax benefits were recognized for these costs at the Company's overall effective tax rate.

Stock Options

On October 16, 2007, the shareholders of the Company approved the 2007 Stock Option Plan (the "2007 Plan"). The 2007 Plan provides for the grant of options to purchase up to an aggregate of 1,000,000 shares of the Company's common stock to employees, directors and certain advisors of the Company at a price not less than the fair market value of the stock on the date of grant and for periods not to exceed ten years. The shares of common stock available for issuance under the 2007 Plan may, at the election of the Company’s board of directors, be unissued shares or treasury shares, or shares purchased in the open market or by private purchase. 360,000 options were granted to executive officers on October 16, 2007 upon the approval of the stockholders of the 2007 Plan, vest in one third increments and are subject to the attainment of certain profitability goals over the three fiscal years ending April 30, 2010. 100,000 options were granted to certain non-executive employees on October 1, 2009 upon the approval of the Company’s board of directors. These options vest on September 30, 2012.

The shareholders of the Company have previously approved the 1997 Stock Option Plan (“1997 Plan”) and the 2007 Stock Option Plan (“2007 Plan”). No additional option grants may be made under the 1997 plan. Outstanding options granted under the Company’s stock option plans expire in the calendar years 2009 through 2017.

	Plan	
	1997	2007
Minimum exercise price as a percentage of fair market value at date of grant	100%	100%
Last expiration date for outstanding options	July 2, 2017	October 1, 2019
Shares available for grant at October 31, 2009	0	510,000

The fair value of options granted is estimated on the date of grant using the Black-Scholes option pricing model based on the assumptions in the table below.

	October 31, 2009	October 31, 2008
Expected term (years)	5.0	5.0
Risk-free interest rate	2.24%	3.33%
Volatility	52.6%	90%
Dividend yield	—	—

The expected term of the options is based on evaluations of historical and expected future employee exercise behavior. The risk-free interest rate is based on the U.S. Treasury rates at the date of grant with maturity dates approximately equal to the expected life at the grant date. Volatility is based on historical volatility of the Company's common stock. The Company has not historically issued any dividends and does not expect to do so in the foreseeable future.

The grant-date fair value of options granted during the six months ended October 31, 2009 and 2008 was $1,260,000 and $201,000, respectively. The options were granted at fair market value on date of grant. The aggregate intrinsic value of outstanding options at October, 2009 and 2008 was $3,958,000 and $2,047,000.

As of October 31, 2009, the Company has $1,718,000 of total unrecognized compensation cost related to unvested options, of which $635,000 relates to options that have performance criteria granted under the 2007 Plan. At each period end, the Company will evaluate and estimate the likelihood of attaining underlying performance goals and recognize compensation cost accordingly. Unvested outstanding options have a weighted-average remaining vesting period of 1.03 years.

There were 82,000 options exercised during the first six months of fiscal year 2009 with an intrinsic value of $1,342,000. The Company received cash from options exercised during the first six months of fiscal year 2009 of $301,000. There were no options exercised during the first six months of fiscal 2010. The impact of these cash receipts is included in financing activities in the accompanying Consolidated Statements of Cash Flows.

Warrants

As of October 31, 2009, the Company had no remaining outstanding stock purchase warrants. Warrants for 18,750 shares were exercised during the six months ended October 31, 2008 with an intrinsic value of $60,000.

Stock Incentive Plan

The shareholders of the Company approved an amendment to the Company's Stock Incentive Plan on October 14, 2009. The amendment increased from 150,000 to 350,000 the number of shares of common stock that may be issued under the Stock Incentive Plan. For shares issued under the Stock Incentive Plan, the associated compensation expense is generally recognized equally over the vesting periods established at the award date and is subject to the employee's continued employment by the Company. During the six months ended October 31, 2009, 10,000 restricted shares were granted with a fair value of $19.06 per share, the market price of the Company's stock on the grant date. During fiscal 2008 and fiscal 2007, 65,000 restricted shares were granted with a fair value of $11.90 per share and 57,500 restricted shares were granted with a fair value of $20.07 per share, the market prices of the Company's stock on the grant dates, respectively. A total of 207,361 shares remained available for award at October 31, 2009. The following is a summary of the activity in the Company's stock incentive plans during the six months ended October 31, 2009:

	Number of Shares		Weighted Average Grant Date Fair Value
Unvested shares at April 30, 2009	25,669	$	13.18
Shares granted	10,000		19.06
Shares vested	-		-
Unvested shares at October 31, 2009	35,669	$	14.81

The Company recorded compensation cost of $84,000 and $313,000 related to the Stock Incentive Plan during the six months ended October 31, 2009 and 2008, respectively.

As of October 31, 2009, the Company has $288,000 of total unrecognized compensation cost related to unvested awards granted under the Stock Incentive Plan, which the Company expects to recognize over a weighted-average remaining period of 1.4 years.

Treasury Stock

The Company did not purchase any shares of its common stock during the first six months of fiscal 2010 and fiscal 2009. Treasury stock may be used for issuances under the Company's stock-based compensation plans or for other general corporate purposes.

Recent Accounting Pronouncements

Effective July 1, 2009, the Company adopted the Accounting Standards Codification™ (the "Codification"). The Codification is the source of authoritative U.S. Generally Accepted Accounting Principles ("GAAP") to be applied by nongovernmental entities. The Codification does not change current U.S. GAAP but is intended to simplify user access to all authoritative U.S. GAAP by providing all authoritative literature in one place. The Codification is effective for financial statements issued for interim and annual periods ending after September 15, 2009. Adoption of the Codification did not have a material impact on the Company's financial statements.

The Company adopted the amendments to ASC Topic 810 – "Consolidation" ("ASC 810") May 1, 2009. The objective of this amendment is to improve the relevance, comparability, and transparency of the financial information that a reporting entity provides in its consolidated financial statements. Accordingly this amendment requires the ownership interests in subsidiaries held by other parties other than the parent be clearly identified, labeled, and presented in the Consolidated Balance Sheet within equity but separate from the parent's and entities provide sufficient disclosures that clearly identify and distinguish between the interests of the parent and the interests of the noncontrolling owners. Upon the adoption, $100,000 of preferred stock was classified as non-controlling interest within equity and the remaining $400,000 of preferred stock with a put provision was classified in the mezzanine section. The dividends associated with the entire preferred stock were reflected as a reduction to net income to arrive at net income attributable to the common stockholders. The presentation of the preferred stock has been applied retroactively for all periods.

The Company adopted the amendments to ASC Topic 815 "Derivatives and Hedging" ("ASC 815") May 1, 2009. Due to the use and complexity of derivative instruments, there were concerns regarding the existing disclosure requirements around derivative instruments. Accordingly, this amendment requires enhanced disclosures about an entity's derivative and hedging activities. Entities will be required to provide enhanced disclosures about (i) how and why an entity uses derivative instruments, (ii) how derivative instruments and related hedging items are accounted for under

ASC 815 and its related interpretations, and (iii) how derivative instruments and related hedging items affect an entity's financial position, financial performance and cash flows. This amendment did not have a material impact on the Company's financial statements.

The Company also adopted amendments to ASC Topic 855 "Subsequent Events" ("ASC 855") May 1, 2009. This amendment was issued to establish general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued. It sets forth the period after the balance sheet date during which management of a reporting entity should evaluate events or transactions that occur for a potential recognition or disclosure in the financial statements, the circumstances under which an entity should recognize events or transactions occurring after the balance sheet date in its financial statements, and the disclosures that an entity should make about events or transactions that occurred after the balance sheet date. The amendment also introduces the concept of financial statements "available to be issued." Adoption of this amendment did not have a material impact on the Company's financial statements.

In August 2009, the FASB issued Accounting Standards Update ("ASU") No. 2009-05, "Fair Value Measurements and Disclosures (Topic 820) – Measuring Liabilities at Fair Value." This ASU clarifies the fair market value measurement of liabilities. In circumstances where a quoted price in an active market for the identical liability is not available, a reporting entity is required to measure fair value using one or more of the following techniques: a technique that uses quoted price of the identical or a similar liability or liabilities when traded as an asset or assets, or another valuation technique that is consistent with the principles of Topic 820 such as an income or market approach. ASU No. 2009-05 was effective upon issuance and it did not have a material impact on the Company's financial statements.

Reclassifications

Certain prior year amounts in the accompanying financial statements have been reclassified to conform to the second quarter of fiscal 2010 presentation. Upon adoption of the amendments to ASC 810 during the first quarter of fiscal 2010, $100,000 of the Company's subsidiary's mandatorily redeemable preferred stock was reclassified as a noncontrolling interest within equity and $400,000 of the mandatorily redeemable preferred stock with a put was reclassified in the mezzanine section. The dividends associated with the preferred stock are reflected as a reduction to net income to arrive at net income attributable to common stockholders.

C – Finance Receivables

The Company originates installment sale contracts from the sale of used vehicles at its dealerships. These installment sale contracts typically include interest rates ranging from 5.5% to 19% per annum, are collateralized by the vehicle sold and provide for payments over periods ranging from 12 to 36 months. The components of finance receivables are as follows:

(In thousands)	October 31, 2009	April 30, 2009
Gross contract amount	$ 281,723	$254,372
Less unearned finance charges	(28,004)	(23,021)
Principal balance	253,719	231,351
Less allowance for credit losses	(54,055)	(49,310)
Finance receivables, net	$ 199,664	$182,041

Changes in the finance receivables, net balance for the six months ended October 31, 2009 and 2008 are as follows:

(In thousands)	Six Months Ended October 31, 2009	2008
Balance at beginning of period	$ 182,041	$ 163,344
Finance receivable originations	140,749	125,447
Finance receivables from acquisition of business	31	-
Finance receivable collections	(80,054)	(71,430)
Provision for credit losses	(30,203)	(28,912)
Losses on claims for payment protection plan	(2,161)	(1,804)
Inventory acquired in repossession and payment protection plan claims	(10,739)	(10,799)
Balance at end of period	$ 199,664	$ 175,846

Changes in the finance receivables allowance for credit losses for the six months ended October 31, 2009 and 2008 are as follows:

(In thousands)	Six Months Ended October 31, 2009	2008
Balance at beginning of period	$ 49,310	$ 44,809
Provision for credit losses	30,203	28,912
Allowance related to acquisition of business, net change	(31)	-
Charge-offs, net of recovered collateral	(25,427)	(26,028)
Balance at end of period	$ 54,055	$ 47,693

The factors which influenced management's judgment in determining the amount of the additions to the allowance charged to Provision for Credit Losses were:

The level of actual charge-offs, net of recovered collateral, is the most important factor in determining the charges to the Provision for Credit Losses. This is due to the fact that once a loan becomes delinquent the account is either made current by the customer, the vehicle is repossessed or the account is written off, if the collateral cannot be recovered. Net charge-offs for the second quarter of fiscal 2010 were slightly lower than the prior year period even though average finance receivables outstanding were approximately $27.6 million higher. Higher sales volumes had the effect of increasing required additions to the allowance charged to the provision for the first six months of 2010 tempered, to an extent, by the lower relative charge-off amount.

Collections and delinquency levels have a significant effect on additions to the allowance and are reviewed frequently in determining the additions to the allowance charged to the provision. For the first six months of 2010, collections as a percentage of average finance receivables were slightly higher and delinquencies were lower which served to offset the higher additions which resulted from increased sales volumes.

Macro-economic factors as well as proper execution of operational policies and procedures can have a significant effect on additions to the allowance charged to the provision. Higher unemployment levels, higher gasoline prices and higher prices for staple items can have a significant effect. While overall macro-economic factors were somewhat less favorable during the first six months of 2010, operational improvements within the collections area as well as market share gains and specific stimulus funds directly benefitting most the Company's customers were positive as related to credit results when compared to the prior year period. Additionally, gasoline prices were lower during the first six months of 2010 when compared to the prior year period which had a positive effect on credit results.

D – Property and Equipment

A summary of property and equipment is as follows: